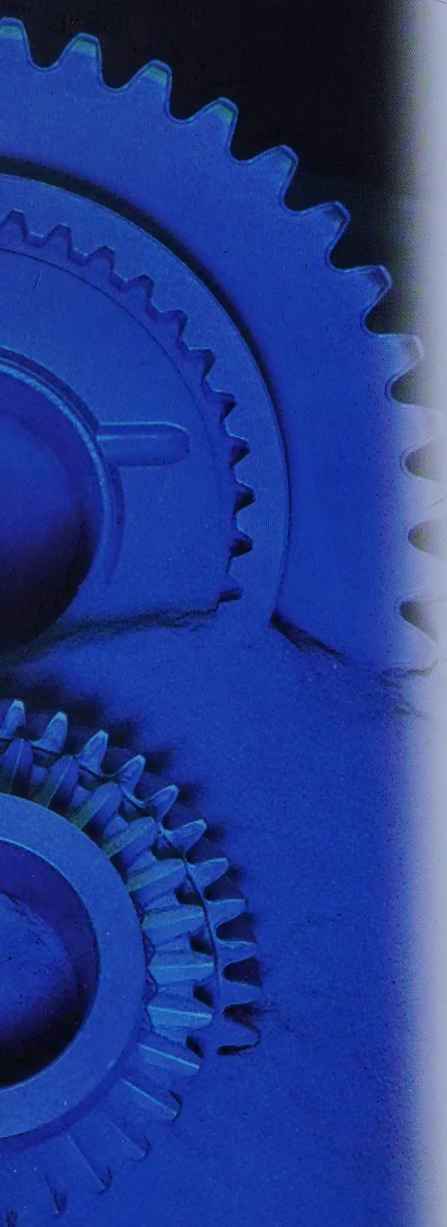


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Stackpole

LIMITED

Annual Report 2002

Table of Contents

2	Letter to Shareholders
5	Management's Discussion and Analysis
10	Management's Responsibility for Financial Statements
10	Auditors' Report to Shareholders
11	Consolidated Financial Statements
14	Notes to Consolidated Financial Statements
25	Summary of Quarterly Data
26	Ten Year Financial Summary
27	Board of Directors
28	Corporate Information

Corporate Profile

Stackpole Limited is one of the world's leading manufacturers of highly engineered, technologically differentiated, automotive powertrain systems and components. Stackpole has more than 1,500 skilled employees at five operating plants in Canada and the United Kingdom.

Stackpole is a public company and its common shares are listed and traded on The Toronto Stock Exchange under the symbol SKD.

Financial Highlights

(thousands of dollars, except per share amounts)

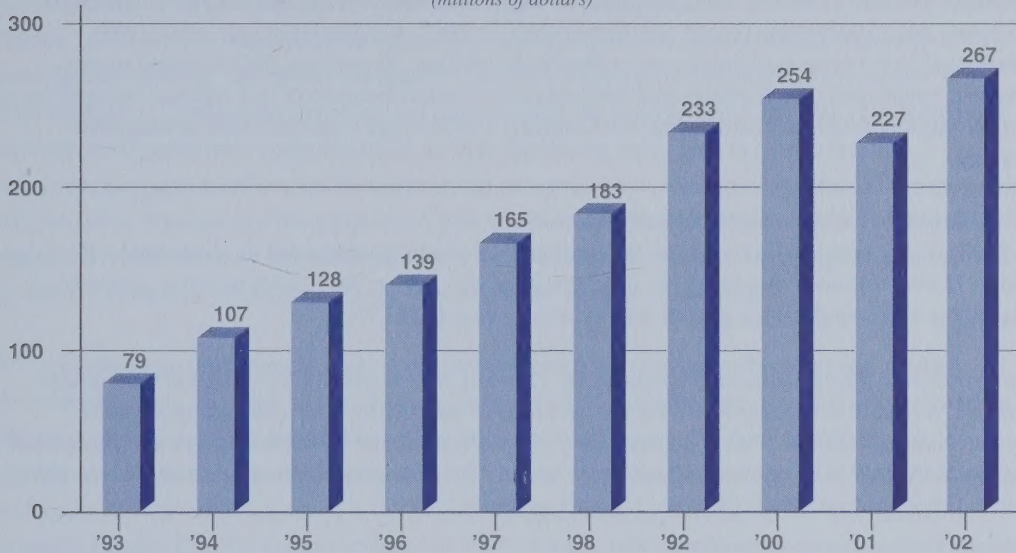
INCOME	2002	2001	% Change
Sales	\$ 266,953	\$ 227,242	17.5
Income before Interest and Income Taxes	30,416	20,901	45.5
Net Income	19,442	11,137	74.6
Net Income per Common Share (<i>Diluted</i>)	2.02	1.15	75.7
Return on Equity	14.6%	9.4%	
Cash Provided by Operating Activities	45,105	36,725	22.8
Capital Expenditures	19,899	16,516	20.5

FINANCIAL POSITION

Total Assets	\$ 208,469	\$ 191,927	8.6
Total Debt	7,085	28,245	(74.9)
Shareholders' Equity	144,811	122,150	18.6
Debt (net of Cash) to Total Capitalization	nil	14.7%	

SALES

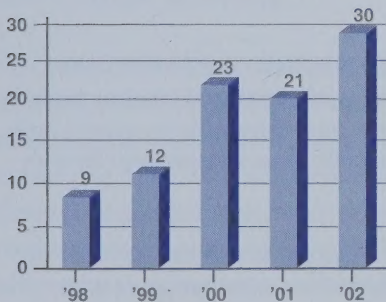
(millions of dollars)



Sales have increased at an annualized rate in excess of 17% over the past ten years.

OPERATING INCOME

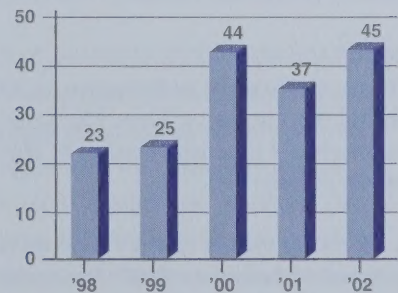
(millions of dollars)



Operating income has risen more than 300% over the last four years.

CASH FLOW FROM OPERATIONS

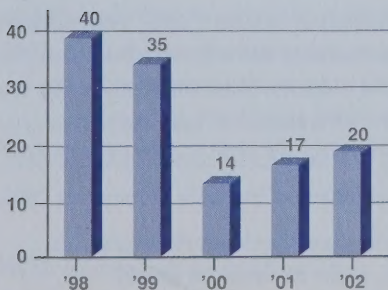
(millions of dollars)



Cash flow from operations has grown an average of 18% annually since 1998.

CAPITAL EXPENDITURES

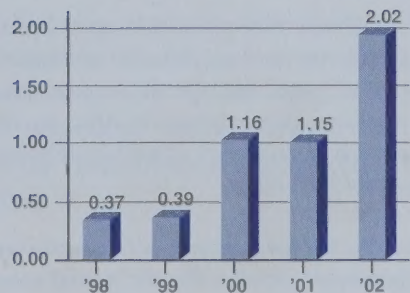
(millions of dollars)



Capital expenditures of \$126 million since 1998 have generated 62% growth.

OPERATING EPS (Diluted)

(dollars)



Operating earnings per share have compounded by about 52% annually over the last four years.

Stackpole became a publicly listed company in May 1993, and over the succeeding ten years the Company has a compelling record of achievements. In 2002, the progress made since 1993 culminated in the most successful year in Stackpole's history. Success in 2002 included record financial results and strong operational performance, continued customer and industry recognition as well as exciting progress in advancing the Company's technology based business development strategy.

RECORD FINANCIAL PERFORMANCE

In 2002, strong growth resulting from the introduction of new products led to record sales of \$266,953,000, a growth rate of 17.5% from the prior year. Since 1992, Stackpole has achieved an impressive compound annual growth rate in sales in excess of 17%.

Compared with 2001, net income increased by 75% to a record level of \$19,442,000 with diluted earnings per share exceeding \$2.00 for the first time in our history. The outstanding financial performance achieved in 2002 is a testament to the dedication and innovation of our employees and is an indication of the organization's ability to achieve its continuous improvement objectives and launch significant new business with outstanding results.

The acceleration in earnings in 2002 produced a 23% gain in cash flow from operating activities, which, in turn enabled Stackpole to complete the planned reduction in bank indebtedness. At the end of 2002, Stackpole's cash on hand exceeds the remaining bank debt. The Company's strong balance sheet will enable us to execute our growth strategy even if economic weakness causes automotive industry production volumes to decline in 2003 and 2004.

2

OUTSTANDING OPERATIONAL SUCCESS & CONTINUED INDUSTRY RECOGNITION

The record financial performance of 2002 was a direct consequence of operational progress made in each of Stackpole's facilities. The scope of Stackpole's operational performance can be seen in both the successful program launches of 2002 and the commitment to continuous improvement throughout the organization.

A successful growth strategy depends on the ability of the organization to launch new products on time and on budget. In 2002, Stackpole's Engineered Products facility launched programs with annual sales of \$52 million including three engine oil pump systems for DaimlerChrysler and a highly innovative oil pump system for the General Motors 4T65 transmission. The launch of the 4T65 transmission oil pump was particularly impressive given that a sizable capital investment program was completed, and full volume production at 6,000 pumps per day was achieved, in just seven months after the customer initiated the program.

For the past three years, the implementation of the Stackpole Production System ("SPS") has been a key priority for Stackpole. By encompassing the critical processes and systems by which we run our business in one overall lean operating system, SPS has proven to be an important enabler for continuous improvement. In 2002, the tangible results of SPS included significant gains in operational indicators as well as efficiency improvements that increased the bottom line performance by over \$6 million.

Finally, further customer and industry recognition have again evidenced the depth of Stackpole's operational prowess. For the second consecutive year, Stackpole, alone amongst its global competitors, was chosen as General Motors Supplier of the Year. In addition, for an unprecedented fourth time in five years, the MPIF International P/M Design Competition awarded Stackpole its Grand Prize for product innovation.

EXECUTION OF TECHNOLOGY DRIVEN GROWTH STRATEGY

During 2002, we have achieved great success in advancing our technology based business development strategy. The global automotive powertrain industry is undergoing a dramatic transformation. Competitive pressures are necessitating the vehicle OEM's to seek cost reductions and improved powertrain performance at an ever increasing pace. This in turn is creating unprecedented opportunities for the outsourcing of components, the modularization of components into complete systems and the adoption of new technologies. Stackpole is uniquely positioned to capitalize on this industry transformation as a result of our proprietary technology and proven ability to provide competitive solutions for our customers and execute effectively.

The successful product launches this year combined with a continued technology and product development focus has built our position as leader in target markets with potential sales exceeding \$8 billion per year. As the transformation of the powertrain industry gathers speed, Stackpole expects that the increased outsourcing of our \$8 billion target market and the ability of Stackpole to add value through modularization will create exciting growth opportunities. Our confidence is certainly bolstered by the commencement in 2002 of many new development programs for complete machined planetary gear carriers, oil pumps modules and high strength powder metal gear products. Notably, the programs under development include both products related to new OEM powertrain platforms as well as products for existing platforms that represent cost savings opportunities to OEM's through outsourcing.

GLOBAL GROWTH BY PARTNERING

In addition to the technology driven opportunities for growth through new development programs, Stackpole has taken concrete steps to participate in the burgeoning globalization of the powertrain industry. In April 2002, Stackpole entered into a cooperation agreement with Miba AG, one of Europe's largest and most highly respected automotive powder metal components suppliers. The objective of the agreement is for Stackpole and Miba to cooperate to provide our respective global automotive customers with a solution for engineering, development, production and distribution of powder metal components in North America and Europe.

By pursuing the cooperative development of powder metal products with Miba, Stackpole can now provide a highly effective response to the needs of our customers for global powertrain platforms. The first example of the cooperation is an engine main bearing cap for a North American automotive manufacturer that has been developed by Miba and will be produced by Stackpole commencing in 2003. Annual sales for this program are expected to exceed \$8 million once full production volumes are achieved. The second example is the powder metal components for a new variable valve timing system that has been developed by a European-based systems company for supply in both North America and Europe. Stackpole will commence production of the North American requirements in 2005 and annual sales are expected to reach \$11 million in 2006.

NEW BUSINESS CONTRACTS

The best indicator of progress with the execution of Stackpole's strategy is the number of new business contracts realized over the past year. Currently, the backlog of new business that Stackpole has secured and that has not entered production exceeds an annual sales value of \$170 million.

Examples include:

- Complete machined planetary carriers, clutch plates, and pump components for new generations of 6-speed rear wheel drive automatic transmission.
- Complete machined planetary carriers for four wheel drive systems and a high torque automatic transmission application for DaimlerChrysler.
- The engine main bearing cap and variable valve timing components programs developed in cooperation with Miba AG.
- High torque four wheel drive sprockets for Borg Warner TorqTransfer.
- Synchronizer sleeves for a new generation of 6-speed manual transmission that will be produced in Europe and shared by two global OEM's.
- Engine oil pumps for a new generation of premium global engines.
- Transmission oil pump modules for new generation 6 speed automatic transmissions including the front wheel drive module that will be shared by two global OEM's and a high volume rear wheel drive module.

OUTLOOK

In 2003, we expect some market softening with North American light vehicle production decreasing by 5% to 8%. For Stackpole however, the impact of such a decline in industry production will be more than offset by the attainment of a full year's production from the new products launched in the second half of 2002. These programs will be augmented by other booked new programs launching in 2003 with the result that the Company expects to achieve year over year growth in sales of approximately 10% for 2003.

4

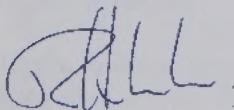
In the event that economic conditions result in a decline in automotive industry volumes that is greater and more prolonged than anticipated, Stackpole's financial performance, in the short term, will be negatively impacted. Beyond 2003 however, growth will be supported by our backlog of new business yet to enter production, which is currently in excess of \$170 million in annual sales. Furthermore, the significant volume of new programs currently under development for OEM customers confirm our expectation that the outsourcing potential of our \$8 billion target market offers excellent prospects for strong future growth in sales.

TOMKINS PLC OFFER

In the fourth quarter of 2002, Stackpole's Board of Directors, after considering reports from management and independent financial advisors, initiated a process to explore strategic alternatives, which ultimately culminated in an offer by Tomkins plc to acquire all of the shares of Stackpole.

The Board of Directors has unanimously recommended that Stackpole shareholders tender their shares to the Tomkins' offer. In making their recommendation the Board considered, among of things, the prospects and risks involved in the business, the strategic alternatives available to the Company and the outcome of the extensive process that was undertaken as well as the value of the Tomkins offer and the advice of independent financial advisors.

In closing, I would like to acknowledge and thank all of Stackpole's employees and management. It is their unwavering effort, innovation and dedication that are the sole source of Stackpole's continued record of accomplishment.



Robert J. Lander
President and Chief Executive Officer
May 5, 2003

Management's Discussion and Analysis

The following provides management's discussion and analysis of the results of operations and liquidity and financial resources of Stackpole Limited for the years ended December 31, 2002 and 2001 and is intended to provide additional information on the Company's performance, financial position and outlook. This discussion should be read in conjunction with the consolidated financial statements and other material presented in this Report.

OVERVIEW

The Company operates in one industry, the design, manufacture and sale of automotive powertrain components and systems for the automotive vehicle manufacturers or their Tier 1 powertrain system suppliers. The Company has developed proprietary technologies in each of its three operating segments, powder metal transmission components, oil pump systems, and roll-formed steel components. Each segment operates in a unique competitive environment with future growth prospects determined by the Company's success in developing and applying the particular technologies to meet the requirements of the Company's global powertrain customers. The Company's strategy is to develop and apply materials, process, and product technology and combine that proprietary technology with extensive manufacturing know-how and operational capability. Through the implementation of this strategy, the Company believes that it is well positioned to capitalize on fundamental trends affecting the global powertrain industry. These trends are driven by the automotive OEM's need for both product cost reductions and improved powertrain performance and include, outsourcing of powertrain components by automotive OEM's, modularization of components into fully designed systems, and globalization of powertrains. Stackpole's strategy, as described more fully in the Letter to Shareholders on pages 2 to 4 of this Annual Report, is intended to strengthen the Company's competitive position, and ensure that the growth opportunities emanating from the industry trends result in increasing shareholder value.

5

2002 HIGHLIGHTS

Management considers 2002 to have been a highly successful year as measured by the Company's operational performance, success in advancing the Company's strategic goals, and attainment of customer satisfaction objectives. Highlights include:

- * The Company exceeded its objective of 15% annual growth in sales with sales increasing by 17.5% to a record level of \$266,953,000.
- * Net income increased by 75% to a record level of \$19,442,000 with diluted earnings per share of \$2.02.
- * The Company successfully launched new transmission and engine oil pump programs and innovative powder metal high strength four wheel drive sprockets with annual sales exceeding \$58 million.
- * Continued business development activities led to the award of new programs including oil pumps, planetary gear carriers, and innovative powder metal products such as high strength gears, engine main bearing caps, and other transmission components. At December 31, 2002, the backlog of new products yet to enter production exceeds \$115 million in annual sales at full production.
- * Stackpole was awarded "Supplier of the Year" by General Motors for the second consecutive year and received the prestigious MPIF grand prize for powder metal innovation.

RESULTS OF OPERATIONS

Sales

Stackpole's sales for the year ended December 31, 2002, of \$266,953,000 increased by \$39.7 million or 17.5% from 2001. The sales increase was the direct result of program revenues derived from new

Management's Discussion and Analysis

transmission and engine oil pump programs and four wheel drive powder metal sprockets that commenced production in the summer of 2002. These programs contributed incremental sales of approximately \$26 million. The second factor contributing to the sales increase was the 5.8% increase in 2002 North American automotive industry production volumes compared with 2001.

Sales by Operating Segment

(\$ 000's unless noted)

	2002	2001
Powder Metal Transmission Components	161,374	155,695
Oil Pump Systems	85,782	54,718
Roll-formed Components	25,182	22,068
Inter-segment Elimination	(5,385)	(5,239)
Consolidated Sales	266,953	227,242

The increase in sales for the year ended December 31, 2002, affected the Company's operating segments differently with Powder Metal Transmission Components ("PMTTC") sales increasing 3.6%, generally reflecting the industry production

increase discussed above. Oil Pump System ("OPS") sales increased by 56.8% as a result of the launch in June 2002 of the 4T65 transmission oil pump for General Motors and three engine oil pump programs for DaimlerChrysler. In addition, OPS experienced year over year increases in volume on transmission oil pump component and engine oil pump programs for DaimlerChrysler that ramped up production in 2001. Roll-formed Components ("RFC") intersegment sales to PMTC increased by 3% while RFC sales in 2002 to external customers increased by 17.6% from the prior year. The higher UK sterling to Canadian dollar exchange rate accounted for approximately 6 percentage points on the sales increase with the balance attributable to program revenues from new synchronizer sleeve products that commenced production during the year.

Stackpole continues to be significantly affected by the production volumes achieved by General Motors ("GM") and DaimlerChrysler ("DC"). In 2002, direct sales to GM and DC accounted for 34% and 23% of total sales compared with 28% and 22% in 2001. Including sales to Tier 1 powertrain system suppliers who in turn supply GM and DC, production sales to GM and DC totaled approximately 57% and 28% of 2002 sales, compared with 53% and 28% in fiscal 2001. The increase in the proportion of sales to GM resulted from the launch of the 4T65 transmission oil pump in June 2002. For 2003, the Company estimates that its sales by customer will continue at similar percentages as 2002.

In 2002, 81% of the Company's sales from its Canadian operations representing \$199,485,000 were exported to the United States and Mexico compared to 81% or \$169,511,000 in 2001. Approximately 45% of these sales were denominated in U.S. dollars in 2002 compared with 50% in 2001. Stackpole manages its U.S. currency exposure largely through a structured hedging program and through the purchase of some materials and components denominated in U.S. dollars. The Company's hedging program can extend up to five calendar years with decreasing maximum net exposure in future years. At December 31, 2002 the Company had in place forward foreign exchange contracts to sell U.S.\$107,000,000 through 2006 and Euro 4,920,000 in 2003.

Management's Discussion and Analysis

Income (Loss) Before Interest and Taxes

(\$ 000's unless noted)

	2002	2001
Gross Margin	59,885	49,683
Gross margin %	22.4 %	21.9 %
Less:		
Depreciation and amortization	22,650	22,499
Research and development expenses, net	6,819	6,283
Income before interest and income taxes	30,416	20,901

Income before interest and taxes at \$30,416,000 in fiscal 2002 increased by \$9,515,000 or 46% from 2001. The increase in income before interest and taxes is a direct result of the \$39.7 million increase in sales coupled with the impact of slightly higher consolidated gross margins partially offset by marginally increased

depreciation and higher net research and development expenses.

Gross margins increased to 22.4% in 2002 from 21.9% in 2001 and were affected by several factors. First, 78% of the year over year sales increase occurred in the OPS segment and was the result of the new oil pump assembly programs launched in June 2002. Oil pump assemblies comprise significant purchased component content and correspondingly lower value-added than Stackpole's powder metal products. The increasing proportion of the Company's sales derived from oil pump assemblies in 2002 had the effect of reducing gross margins on a consolidated basis. However the product mix impact was mitigated by three factors. The first was the effect of improved plant utilization through higher sales being realized in existing facilities that did not require significant increases in manufacturing support costs. Second, increased operational performance including higher productivity and higher material yield in the PMTC and RFC segments contributed to the increased consolidated gross margin in 2002 compared with 2001. Third, gross margins in 2002 were increased by 0.40% through the recognition of \$935,000 (2001 - nil) in research and development tax credits as an offset to manufacturing, selling, general, and administrative expenses.

The Company maintains its strong commitment to research and development as a means of competing through differentiated products and proprietary processes. In 2002, gross expenditures on R&D less customer recoveries amounted to \$8,303,000 or 3.1% of sales compared with \$7,560,000 or 3.3% of sales. The increase of \$743,000 was due to increased product and process development activities. Net research and development expenditures of \$6,819,000 in 2002 and \$6,283,000 in 2001 are shown net of government grants of \$1,484,000 and \$1,277,000 respectively. The principal component of the government grants is investment tax credits for scientific research and experimental development. The Company records the benefit of the tax credit as an offset to the expenses that gave rise to the tax credit claim. The portion of tax credits claimed relating to general manufacturing overhead is recorded as an offset to manufacturing, selling, general, and administrative expenses as noted above. While the Company claims tax credits based on management's interpretation of the applicable legislation, these claims are subject to audit by federal and provincial jurisdictions.

Interest Expense

The Company's interest on long-term debt expense decreased in 2002 to \$1,854,000 from \$3,863,000 in 2001. The lower interest costs resulted from the reduction in average borrowings and reduced interest rates. The excess of cash flow from operating activities over cash flow used in investing activities enabled a reduction in average outstanding borrowings from \$51 million in 2001 to \$23 million in 2002. The average interest rate incurred on Stackpole's bank debt was approximately 7.3% in 2002 compared with 7.5% in 2001. The reduction in average interest rates reflected the reduction in the interest rate banking spread on the variable interest term debt.

Net Income

The net income of \$19,442,000 for the year ended December 31, 2002, compares with net income of \$11,137,000 in 2001. The tax provision for 2002 as a percentage of income before tax at 31.9% compared with 34.6% in 2001, is lower than the statutory tax rate for manufacturing and processing

Management's Discussion and Analysis

income in the Company's principal jurisdiction Ontario Canada primarily as a result of a \$375,000 recovery of taxes paid in a prior year due to a favourable tax reassessment from Canadian tax authorities.

The number of shares outstanding increased to 9,286,901 at December 31, 2002 from 9,111,438 at the beginning of the year. During 2002, 45,614 common shares were issued under the Company's share purchase plan for senior management and 129,849 were issued through the exercise of stock options under the Company's stock option plan. The average number of shares outstanding for earnings per share calculation purposes decreased from 9,652,844 in 2001 to 9,203,790 in 2002 reflecting the 588,000 common share repurchase by way of an Issuer Bid in December 2001. For 2002 the number of dilutive shares, representing the impact of outstanding stock options, and calculated in accordance with the Company's accounting policy for earnings per share, was 443,252, compared with 25,616 in 2001. On a diluted earnings per share basis, the net income for the year ended December 31, 2002 of \$2.02 compares to \$1.15 in 2001.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow from Operations

(\$ 000's unless noted)

	2002	2001
Net Income	19,442	11,137
Add Items not involving current cash flows	27,985	25,948
	47,427	37,085
Changes in non-cash working capital	(2,322)	(360)
Cash provided from operating activities	45,105	36,725

Cash flow from operations before changes in non-cash working capital was \$47,427,000 in 2002 compared with \$37,085,000 in 2001 and was consistent with the year over year increase in net income. During 2002, non-cash working capital increased by \$2,322,000 from the prior year. An

increase in accounts receivable of \$8,644,000 reflected both the year over year increase in sales and the decision of a major customer to alter the timing of payment from the last day of the month to the second business day of the following month with the result that month end accounts receivable now include two months of shipments to the particular customer. Inventories increased by \$3,057,000 primarily due to the stocking of components for the oil pump programs launched in 2002. Finally the higher accounts receivable and inventories were substantially offset by an increase in accounts payable of \$9,848,000. The increase in accounts payable includes the impact of the component

Cash Flow used in Investing Activities

(\$ 000's unless noted)

	2002	2001
Additions to property, plant, and equipment	19,899	16,516
Proceeds on disposal and other	223	(167)
Cash used in investing activities	20,122	16,349

purchases in connection with the new oil pump programs, and higher current taxes payable.

Capital expenditures of \$19,899,000 in 2002 increased by \$3,383,000 compared with \$16,516,000 in 2001.

Capital expenditures included \$2,500,000 to provide additional powder metal compaction, sintering, and machining capacity to support new programs in the PMTC operating segment, \$10,100,000 for machining and assembly capacity to support new oil pump programs in the OPS operating segment, and \$1,900,000 for new rolling and machining capacity to support new programs in the RFC segment. The remainder of the capital expenditures of approximately \$5,400,000 related to various productivity improvement programs at each of the Company's facilities.

Including current commitments for capital expenditures related to new production programs of \$10,300,000 and additional new program capital expenditures of approximately \$10,000,000 anticipated for 2003, the Company expects that total capital expenditures for 2003 will be approximately \$30 million.

Financing Resources

During both 2002 and 2001, the Company's excess of operating cash flow over its capital expenditures enabled a significant reduction in debt. In 2002, in addition to the required repayments of \$1,271,000 on its fixed interest term debt, the Company prepaid \$19,890,000 of variable interest term and revolving term facility debt. At December 31, 2002, unused and available credit facilities consist of \$50,000,000 under the revolving term facility and \$15,000,000 under the revolving working capital facility. In 2003, the Company has required repayments under the fixed interest term debt of \$1,365,000. The Company expects to finance its capital expenditure program in 2003 entirely from cash generated from operations.

The cash provided by operating activities combined with proceeds from the issuance of common shares of \$2,022,000 was employed to fund capital expenditures and repay long-term debt as described above. The excess resulted in an increase in cash and cash equivalents of \$5,845,000 resulting in the cash on hand position at December 31, 2002 of \$12,989,000.

OUTLOOK

The level of North American automotive production volume constitutes the principal business risk facing the Company in 2003. For 2003, most economic forecasts indicate that a 5 to 8% reduction in North American automotive production volumes are likely although the magnitude of the volume decline is uncertain and will be greatly affected by general economic conditions in North America. The automotive industry is particularly sensitive to changes in consumer confidence and could be negatively impacted by any sustained increase in oil prices. Although overall automotive production volumes affect Stackpole's sales, the volumes achieved on specific programs on which Stackpole has high content are most critical. In this respect, the market success of General Motors cars and light trucks and DaimlerChrysler light trucks can be expected to significantly determine Stackpole's sales and profitability in the short-term.

In addition to the expected reduction in North American light vehicle production of approximately 5%, Stackpole anticipates that the decline in industry production will be more than offset by the attainment of a full year's production from the new products launched in the second half of 2002. These programs will be augmented by other booked new programs launching in 2003 with the result that the Company expects to achieve year over year growth in sales of 10 to 12% for 2003. Any delays in the launch of the new programs that are scheduled for the second half of 2003 could negatively impact sales and profitability.

Beyond 2003, sales and profit growth will be supported by the Company's backlog of new business yet to enter production, which is currently in excess of \$170 million in annual sales. The successful product launches completed in 2002 combined with a continued technology and product development focus has enhanced Stackpole's position as leader in target product markets with potential sales exceeding \$8 billion per year. This leadership position is evidenced by the growth in the backlog of booked new programs and the commencement of a significant number of new development programs for complete machined planetary gear carriers, oil pumps modules and high strength powder metal gear products. More than any other factor, the new programs currently under development for OEM customers reinforces the Company's expectation that the outsourcing potential of the target market offers prospects for strong future growth.

Forward Looking Statements

The contents of this MD&A and other information in this annual report, contain statements, which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" under applicable securities law. The words "estimate", "expect", "believe", "anticipate" and similar expressions are intended to identify forward-looking statements. Such forward-looking information involves important risks and uncertainties that could materially alter results in the future from those expressed in any forward-looking statements made by, or on behalf of, the Company. Persons reading this MD&A are cautioned that such statements are only predictions and actual results may differ materially from those anticipated in the forward-looking statements.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Stackpole Limited have been prepared by management who is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles, and, where appropriate, reflect estimates based upon judgments of management. All financial information presented elsewhere in the Annual Report has been prepared by management to ensure that it is consistent with that contained in the consolidated financial statements.

Stackpole Limited's policy is to maintain systems of accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors, through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is comprised solely of outside directors, meets regularly with financial management and external auditors to review accounting, auditing and financial matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The independent auditors have full and unrestricted access to the Audit Committee.



Gary S. Love
Vice President, Finance,
Chief Financial Officer,
Secretary and Treasurer



Gary R. LeBlanc
Corporate Controller

Oakville, Ontario, February 14, 2003

Auditors' Report

TO THE SHAREHOLDERS OF STACKPOLE LIMITED

We have audited the consolidated balance sheets of Stackpole Limited as at December 31, 2002 and 2001 and the consolidated statements of operations and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants
Toronto, Ontario, February 14, 2003

Consolidated Balance Sheets

(Dollars in thousands)

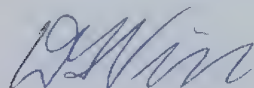
As at December 31,

	2002	2001
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 12,989	\$ 7,144
Accounts receivable	33,568	24,924
Inventories	14,299	11,242
Other current assets	2,272	1,803
	63,128	45,113
PROPERTY, PLANT AND EQUIPMENT (Note 2)	144,398	145,856
OTHER ASSETS (Note 3)	943	958
	\$ 208,469	\$ 191,927
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 35,920	\$ 26,072
Current portion of long-term debt (Note 4)	1,365	1,271
	37,285	27,343
LONG-TERM DEBT (Note 4)	5,720	26,974
FUTURE INCOME TAX LIABILITIES (Note 5)	20,653	15,460
	63,658	69,777
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	33,086	31,064
Retained earnings	108,776	89,334
Foreign currency translation adjustments	2,949	1,752
	144,811	122,150
	\$ 208,469	\$ 191,927

APPROVED BY THE BOARD



Darroch A. Robertson
Director



David G. Vice
Director

Consolidated Statements of Operations and Retained Earnings

(Dollars in thousands except for earnings per share amounts)

Years Ended December 31,

	2002	2001
Sales	\$ 266,953	\$ 227,242
Manufacturing, selling, general and administrative expenses (Note 5)	207,068	177,559
Depreciation and amortization	22,650	22,499
Research and development expenses, net (Note 5)	6,819	6,283
Income before interest and income taxes	30,416	20,901
Interest on long-term debt	1,854	3,863
Income before income taxes	28,562	17,038
Income taxes (Note 5)	9,120	5,901
Net income	\$ 19,442	\$ 11,137
Retained earnings, beginning of year	89,334	81,370
Reduction in retained earnings on redemption of shares (Note 6)	-	(3,173)
Retained earnings, end of year	\$ 108,776	\$ 89,334
Earnings per share: (Note 6)		
Basic	\$ 2.11	\$ 1.15
Diluted	\$ 2.02	\$ 1.15

Consolidated Statements of Cash Flows

(Dollars in thousands)

Years Ended December 31

	2002	2001
OPERATING ACTIVITIES		
Net income	\$ 19,442	\$ 11,137
Non-cash items:		
Depreciation and amortization	22,650	22,499
Future income taxes	5,191	3,290
Other	144	159
Changes in non-cash operating working capital items	(2,322)	(360)
Cash provided by operating activities	45,105	36,725
FINANCING ACTIVITIES		
Repayments of long-term debt	(21,160)	(20,621)
Issuance of common shares for cash	2,022	622
Repurchase of shares for cancellation	-	(5,178)
Cash used in financing activities	(19,138)	(25,177)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(19,899)	(16,516)
Proceeds from sale of plant and equipment	4	226
Other	(227)	(59)
Cash used in investing activities	(20,122)	(16,349)
Increase (decrease) in cash and cash equivalents	5,845	(4,801)
CASH AND CASH EQUIVALENTS		
- BEGINNING OF YEAR	7,144	11,945
- END OF YEAR	\$ 12,989	\$ 7,144
Cash and cash equivalents is comprised of:		
Cash	\$ 8,789	\$ 7,144
Short-term investments	4,200	-
	\$ 12,989	\$ 7,144
Supplementary Information:		
Income taxes paid	\$ 969	\$ 1,704
Interest paid	\$ 1,748	\$ 4,153

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies from the dates of acquisition. All significant intercompany balances have been eliminated on consolidation.

USE OF ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash balances and short-term investments in bankers' acceptances and short-term commercial paper with maturities of ninety days or less. Short-term investments are carried at cost, which approximates market value.

INVENTORIES

Inventories are valued at the lower of average cost and net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less any related investment tax credits. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is calculated principally on a straight-line basis with estimated useful lives for buildings of 40 years and for machinery and equipment from 3 to 10 years. For equipment purchased for major product introductions, the Company uses the units-of-production method of depreciation.

OTHER ASSETS

Other assets include certain development costs incurred on major new products, which are deferred and amortized on a units-of-production basis beginning in the first year of commercial production. They also include debt issuance costs, which are amortized on a straight-line basis over the terms of the related debt, and patents, which are amortized on a straight-line basis over a period of 10 years.

REVENUE RECOGNITION

Revenue from the sales of manufactured products is recognized upon shipment to, or acceptance by, customers depending on the terms of the customer purchase order.

FOREIGN EXCHANGE

Assets and liabilities of foreign subsidiaries, all of which are self-sustaining, are translated using the exchange rate in effect at the year end and revenues and expenses are translated at the average rate during the year. Foreign currency translation adjustments are deferred and included as a separate component of shareholders' equity.

Unhedged foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Foreign exchange gains and losses on transactions are reflected in income except for gains and losses on forward currency exchange contracts used to hedge future sales denominated in foreign currency. Gains or losses on these contracts are recognized and recorded in sales as the related hedged sales occur.

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

EMPLOYEE FUTURE BENEFITS

The Company recognizes the liability and expense for all employee future benefits in the reporting period in which an employee has provided the service that gives rise to the benefits and accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 25 years.

INCOME TAXES

The Company uses the asset and liability method for computing future income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in net income in the period that includes the substantive enactment date. Material changes in tax rates could result in volatility in net income in the periods affected. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

RESEARCH AND DEVELOPMENT

Research expenditures are expensed as incurred, as are development expenditures that do not meet the criteria for deferral under Canadian generally accepted accounting principles. The Company receives government grants and claims tax credits for research and development activities, the benefit of which are recorded as a reduction to the applicable expense or asset. The amount of tax credit claimed is based on management's interpretation of the applicable federal and provincial tax legislation and all claims are subject to audit by the applicable tax authorities.

STOCK-BASED COMPENSATION PLANS

The Company has three stock-based compensation plans, which are described in Note 7. Effective January 1, 2002 the Company has adopted CICA 3870. Under this standard, the Company has elected to continue to account for employee stock options whereby no compensation expense is recognized for stock options when issued to employees provided the option exercise price equals the market value of the stock at the time the option is issued. On exercise of the options, any consideration paid by employees is credited to share capital. Pursuant to the requirements of CICA 3870, the Company discloses the compensation expense, calculated in accordance with the fair value method, for fixed stock options issued subsequent to January 1, 2002.

EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding during the year. The diluted earnings per share calculation increases the number of shares used in the calculation to give effect to the dilutive impact of options outstanding. The increase in the number of shares used in the diluted earnings per share calculation is determined using the treasury stock method.

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31, 2002			December 31, 2001		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 2,408	\$ -	\$ 2,408	\$ 2,408	\$ -	\$ 2,408
Buildings and improvements	19,414	6,438	12,976	19,197	5,630	13,567
Machinery and equipment	256,977	137,590	119,387	237,956	114,686	123,270
Construction in progress	9,627	-	9,627	6,611	-	6,611
	\$288,426	\$144,028	\$144,398	\$266,172	\$120,316	\$145,856

3. OTHER ASSETS

Other assets consist of the following:

	2002	2001
Debt issuance costs	\$ 227	\$ -
Patents	1,541	1,541
	1,768	1,541
Accumulated amortization	825	583
	\$ 943	\$ 958

4. LONG-TERM DEBT

Long-term debt consists of the following:

	2002	2001
Variable interest term debt	\$ -	\$19,890
Fixed interest term debt at 7.40%, due June 30, 2004 repayable in 47 blended monthly payments of \$154,000 starting August 1, 2000 and a balloon payment of \$5,000,000 on June 30, 2004	7,085	8,355
	7,085	28,245
Amounts due within one year	1,365	1,271
	\$ 5,720	\$26,974

The variable interest term debt was repaid on March 6, 2002 when the Company entered into a new \$50,000,000 revolving term facility that expires on July 31, 2004 and \$15,000,000 revolving working capital facility that expires on July 30, 2003. No amounts were outstanding under either facility at December 31, 2002.

At December 31, 2002, the interest rates on the revolving term and the revolving working capital facilities were bankers' acceptance rate plus 1.25% and 0.85% respectively compared with 2.0% and 1.5% on the comparable facilities at December 31, 2001. At December 31, 2001, the interest on a portion of the Company's variable interest revolving term debt had been fixed under interest rate swaps (*Note 10*).

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

The fixed interest term debt, revolving term facility, revolving working capital facility and variable interest term debt, are secured by a debenture and a fixed and floating charge on all of the Company's assets. In addition, the Company is required to maintain certain covenants.

The annual amounts of principal payments required to meet long-term debt obligations are as follows:

2003	\$ 1,365
2004	5,720
	<u>\$ 7,085</u>

5. INCOME TAXES

The provision for income taxes consists of the following:

	2002	2001
Current	\$ 3,929	\$ 2,611
Future	5,191	3,290
	<u>\$ 9,120</u>	<u>\$ 5,901</u>

Significant components of future income taxes are as follows:

	2002	2001
Future income tax liabilities		
Property, plant and equipment	\$18,973	19,558
Other	3,545	4,359
	<u>22,518</u>	<u>23,917</u>
Less future income tax assets		
Investment tax credits	1,757	6,836
Corporate minimum tax paid	-	1,284
Other	108	337
	<u>1,865</u>	<u>8,457</u>
	<u>\$20,653</u>	<u>\$15,460</u>

The Company's effective income tax rates have been determined as follows:

	2002	2001
Canadian statutory income tax rate	41.6%	42.8 %
Manufacturing and processing deduction	(8.5)	(9.0)
Recovery of prior years losses	(1.3)	-
Foreign rate differential	(0.4)	(1.5)
Large corporations tax	1.1	1.7
Other	(0.6)	0.6
	<u>31.9%</u>	<u>34.6%</u>

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

The benefit of research and development tax credits recorded during the period is as follows:

	2002	2001
Manufacturing, selling, general, and administrative expenses	\$ 935	\$ -
Research and development expenses, net	1,484	1,059
Research and Development Tax Credit Benefit	\$ 2,419	\$ 1,059
Government grants applied to research and development expenses, net	\$ -	\$ 218

6. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares and an unlimited number of First and Second Preference Shares, issuable in series. To date, the Company has not issued any preference shares.

A reconciliation of the issued common shares of the Company follows:

	2002		2001	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance at beginning of year	9,111,438	\$31,064	9,627,651	\$32,447
Shares issued for cash from 1993 Stock Option Plan and Key Employee Share Trust (Note 7)	129,849	1,328	-	-
Shares issued under Employee Share Purchase Plan (Note 7)	45,614	694	71,787	
Shares repurchased for cancellation	-	-	(588,000)	(2,005)
Balance at end of year	9,286,901	\$33,086	9,111,438	\$31,064

A reconciliation of the number of shares used in the earnings per share calculation follows:

	2002	2001
	Number of Shares	Number of Shares
Average number of shares per basic earnings per share calculation	9,203,790	9,652,844
Effect of dilutive options outstanding	443,252	25,616
Average number of shares per diluted earnings per share calculation	9,647,042	9,678,460

7. STOCK-BASED COMPENSATION PLANS

At December 31, 2002, the Company had three stock-based compensation plans, which are described below.

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

EMPLOYEE SHARE PURCHASE PLAN

On May 10, 2001 the Company's shareholders approved the adoption of a share purchase plan (the "Share Plan") under which the Company may grant to eligible participants the right to purchase, at fair market value, common shares which have an aggregate purchase price that is equal to or less than the eligible participant's annual performance bonus. On March 6, 2002 the Board of Directors of the Company granted Purchase Rights under the Share Plan that resulted in the issuance of 45,614 common shares at an issue price of \$15.22 per share being the fair market value at the date of the grant. After giving effect to the March 6, 2002 grant and all preceding grants, the remaining aggregate number of common shares that may be issued pursuant to the Share Plan shall not exceed 182,599 common shares.

STOCK OPTION PLAN

Under the 1993 Stock Option Plan (the "Option Plan"), the Company may grant options to its directors, officers and certain key employees of the Company and its affiliates for up to 1,943,869 common shares. The number of common shares available to be reserved for future option grants at December 31, 2002 was 290,447 (2001 – 296,447). Under the Option Plan the exercise price of each option equals the market price of the Company's common shares on the date of grant. Options under the Option Plan expire no later than ten years from the date the options are granted, and vest at 20% per annum, in arrears on a cumulative basis, and based on criteria set by the Board of Directors including the achievement of specified share price performance targets.

Options are automatically cancelled, after a specified amount of time, when the optionee leaves the employment of the Company or ceases to qualify under the Option Plan. If the Company's parent, or its controlling shareholders, ceases to own at least 35% of the Company, all issued and outstanding options will become fully vested and immediately exercisable.

A summary of the options outstanding under the Company's Option Plan is as follows:

Options	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Balance at beginning of year	1,208,041	\$11.11	898,141	\$11.38
Granted	45,000	22.53	315,000	10.36
Exercised	(129,849)	10.23	-	-
Forfeited	(39,000)	10.79	(5,100)	11.77
Balance at end of year	1,084,192	\$11.69	1,208,041	\$11.11
Options exercisable at December 31	586,292	\$11.77	583,941	\$11.50

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

Options outstanding at December 31, 2002 consist of the following:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
Range of Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$ 7.75	103,400	8 years	\$ 7.75	40,400	\$ 7.75
9.00	45,000	2 years	9.00	45,000	9.00
9.30	60,000	7 years	9.30	32,000	9.30
10.00 – 11.00	394,292	7 years	10.05	156,392	10.08
12.25 – 12.70	163,500	6 years	12.63	123,500	12.67
13.00	57,000	4 years	13.00	57,000	13.00
13.25 – 13.40	150,000	6 years	13.30	90,000	13.30
13.75	30,000	9 years	13.75	6,000	13.75
20.00	56,000	7 years	20.00	36,000	20.00
24.55	25,000	10 years	24.55	-	24.55
	1,084,192			586,292	

At December 31, 2002, options outstanding include 448,400 performance-based options that will vest only upon the common share price reaching certain target levels that range from \$12 to \$30 per share.

KEY EMPLOYEE SHARE TRUST

In 1993 the Company issued 253,271 common shares for \$0.01 consideration to the Key Employee Share Trust (the "Trust"). The Trust issued options to acquire the shares owned by it for nominal consideration to certain directors, officers, and key employees of the Company and its affiliates on substantially the same terms and conditions as the options granted by the Company under the Option Plan. Options to acquire three common shares from the Trust were issued for every seven options to buy common shares issued in May 1993.

A summary of the Key Employee Share Trust is as follows:

	2002	2001
Balance at beginning of year	84,018	84,918
Exercised	(38,892)	-
Forfeited	-	(900)
Balance at end of year	45,126	84,018

All options to acquire the shares held by the Trust have a purchase price of \$0.01 and expire in May 2003. At December 31, 2002, all options on the Trust shares are exercisable.

Effective January 1, 2002 the Company has adopted CICA 3870. Under this standard, the Company has elected to disclose the compensation expense for fixed stock options, issued subsequent to January 1, 2002, that would be recorded if the fair value method were adopted.

The Company estimates the fair value of stock options at the date of grant using the Black Scholes option pricing method with the following weighted average assumptions:

	2002
Risk free interest rate	4.8%
Expected dividend yield	0%
Expected volatility	35.4%
Expected time until exercise	5

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

The weighted average fair value of the 45,000 options granted during the year ended December 31, 2002 was \$8.84 per option. On a pro forma basis reflecting fair value based accounting for stock options issued subsequent to January 1, 2002, net income, earnings per share, and diluted earnings per share for the year ended December 31, 2002 would have been \$19.4 million, \$2.11, and \$2.01 respectively.

8. EMPLOYEE FUTURE BENEFITS

The Company has a number of defined benefit and defined contribution plans providing pension benefits to most of its employees. The Company has no benefit plans other than pension plans.

DEFINED CONTRIBUTION PLANS

The total expense for the Company's defined contribution plans is as follows:

	2002	2001
Plans providing pension benefits	\$190	\$175

DEFINED BENEFIT PLANS

Information about the Company's defined benefit plans, in aggregate, is as follows:

	2002	2001
Plan Assets		
Market value at beginning of year	\$22,300	\$21,789
Actual return on plan assets	(3,085)	(1,286)
Employer contributions	2,162	2,311
Employee contributions	405	427
Benefits paid	(1,386)	(1,219)
Foreign exchange rate changes	791	278
Market value at end of year	\$21,187	\$22,300

Accrued benefit obligation

Beginning of year	\$27,193	\$24,634
Current service cost	1,979	1,799
Interest cost	1,954	1,667
Benefits paid	(1,386)	(1,219)
Actuarial (gains) losses	(1,113)	18
Foreign exchange rate changes	983	294
Accrued benefit obligation at end of year	\$29,610	\$27,193

Funded Status

Plan deficit	\$ 8,423	\$4,893
Unamortized net actuarial loss	(8,289)	(4,523)
Unamortized transitional obligation	240	214
Accrued benefit liability	\$ 374	\$584

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

	2002	2001
Benefit plan expense		
Current service cost, net of employee contributions	\$1,574	\$1,372
Interest cost	1,954	1,667
Expected return on plan assets	(1,673)	(1,694)
Amortization of net actuarial loss	132	9
Amortization of transitional obligation	(14)	(12)
Net benefit plan expense	<u>\$1,973</u>	<u>\$1,342</u>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

(weighted average assumptions as at December 31)

	2002	2001
Discount rate	6.4%	7.0%
Expected long-term rate of return on plan assets	7.0%	8.0%
Rate of compensation increase	4.0%	4.0%

22

9. COMMITMENTS

At December 31, 2002, the Company has commitments for major capital expenditures under purchase orders and contracts amounting to approximately \$8,400,000. The Company also has a commitment for the purchase of nitrogen, for use in the production process, amounting to guaranteed payments of approximately \$760,000 per year to 2013.

Minimum lease payments under various operating lease commitments are as follows:

2003	\$1,371
2004	761
2005	589
2006	512
2007	415
Thereafter	<u>2,075</u>
	<u>\$5,723</u>

10. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and short-term obligations approximate their respective fair values because of the near-term maturity of these instruments. The estimated fair values of the long-term debt, forward currency exchange and interest rate swap contracts are based on public trading values where available, or where not available, with reference to values for similarly traded instruments with similar features.

The carrying amounts of long-term debt at December 31, 2002 and 2001 were \$7,085,000 and \$28,245,000 with comparable fair values of \$6,871,000 and \$27,938,000, respectively.

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

CURRENCY RISK

In conducting its business, the Company uses forward currency exchange contracts to manage the risks arising from fluctuations in exchange rates. All such instruments are used for risk management purposes only and are not held for trading purposes. The use of these financial instruments is approved and monitored by the Company's Board of Directors.

At December 31, the Company had outstanding forward currency exchange contracts as follows (amounts in thousands):

Contract Expiry		Aggregate Contract Amount		Unrealized Gain (Loss) on Contracts	
		2002	2001	2002	2001
Sell US\$ for Cdn\$	2003-2006	US\$ 107,000	US\$ 109,700	\$(6,855)	\$(11,254)
Sell US\$ for UK	2002	-	US\$ 840	-	13
Sell Euro for UK	2003	Euro 4,920	Euro 2,760	(261)	131

The amounts included under the Unrealized Gain (Loss) on Contracts heading represent the gain (loss) had the contracts been closed out on December 31. In 2002, the Company recorded foreign exchange gains on unhedged transactions of \$114,000 (2001- \$240,000).

CREDIT RISK

The Company's exposure to credit risk, principally credit risk from customers, is equal to the carrying amounts of its financial assets. In 2002 and 2001, sales to the Company's largest customer amounted to \$90,444,000 and \$64,608,000 respectively. The Company is also exposed to credit related losses in the event of nonperformance by the counterparties to its forward currency exchange and interest rate swap contracts, but does not anticipate such nonperformance. The risk of significant credit loss is considered remote.

INTEREST RATE RISK

The Company utilized interest rate swaps to reduce risk associated with a portion of the revolving term facility and variable interest term debt. As at December 31, 2002 and 2001 the Company had \$6,750,000 of outstanding interest rate swaps with a rate fixed at 7.08% plus financing spread of 1.25%(2001-2%), which expire on July 22, 2003. At December 31, 2002, with the repayment of the underlying debt, the Company has recognized a loss of \$212,000 as the payment that would be required to close out the contract on that date. This compares with a required payment of \$493,000 if the interest rate swap contracts had been closed out on December 31, 2001. At December 31, 2001, the increase or decrease in annual interest costs on the variable interest term debt not covered by interest rate swaps amounted to \$131,000 for each one percent change in interest rates.

11. TRANSACTIONS WITH RELATED PARTIES

At December 31, 2002, the Company's parent, The Stackpole Corporation, owned approximately 53% (2001 - 53%) of the outstanding common shares of the Company. The Company purchased services from its parent amounting to \$475,000 in 2002 (2001 - \$581,000). These transactions are in the normal course of business and are valued at a fair market price. The Company had a net balance due to its parent of \$112,000 and \$206,000 at December 31, 2002 and 2001, respectively.

12. SEGMENTED INFORMATION

The Company operates in one industry, the design, manufacture and sale of automotive powertrain components and systems for the automotive vehicle manufacturers or their Tier 1 powertrain system suppliers. The Company has developed proprietary technologies in each of its three operating segments, powder metal transmission components, oil pump systems, and roll-formed steel

Notes to Consolidated Financial Statements

Years Ended December 31, (columnar amounts in thousands of dollars)

components. Each segment operates in a unique competitive environment with future growth prospects determined by the Company's success in developing and applying the particular technologies to meet the requirements of the Company's global powertrain customers. The determination of operating segments reflects management's approach to assessing the performance and future growth prospects of its businesses and the allocation of resources thereto. Certain information with respect to operating segments follows:

Year ended December 31, 2002	Canada		United Kingdom		
	Powder Metal Transmission Components	Oil Pump Systems	Roll-formed Components	Corporate	Total
Sales	\$161,374	\$ 85,782	\$ 25,182	\$ -	\$272,338
Inter-segment sales	-	-	(5,385)	-	(5,385)
External sales	161,374	85,782	19,797	-	266,953
Depreciation and amortization	14,739	5,419	1,953	539	22,650
Income (loss) before interest and income taxes	18,665	11,250	(902)	1,403	30,416
Interest on long-term debt	-	-	-	1,854	1,854
Property, plant and equipment	85,597	45,153	12,293	1,355	144,398
Total assets	106,929	64,005	17,264	20,271	208,469
Capital expenditures	6,217	10,882	2,486	314	19,899

24

Year ended December 31, 2001	Canada		United Kingdom		
	Powder Metal Transmission Components	Oil Pump Systems	Roll-formed Components	Corporate	Total
Sales	\$ 155,695	\$ 54,718	\$ 22,068	\$ -	\$232,481
Inter-segment sales	-	-	(5,239)	-	(5,239)
External sales	155,695	54,718	16,829	-	227,242
Depreciation and amortization	14,690	4,727	2,219	863	22,499
Income (loss) before interest and income taxes	16,969	4,828	(1,968)	1,072	20,901
Interest on long-term debt	-	-	-	3,863	3,863
Property, plant and equipment	94,118	39,693	10,710	1,335	145,856
Total assets	114,105	49,631	18,977	9,214	191,927
Capital expenditures	7,941	7,280	1,064	231	16,516

Canadian sales include export sales of \$199,485,000 and \$169,511,000 in 2002 and 2001, respectively, virtually all of which were to the United States and Mexico. United Kingdom sales include export sales of \$19,153,000 in 2002 and \$16,829,000 in 2001.

Sales to the automotive industry were \$255,697,000 in 2002 and \$213,124,000 in 2001. For 2002, sales to the Company's four largest customers amounted to 34%, 23%, 16% and 14% of total sales (2001 – 28%, 22%, 17% and 16%).

13. COMPARATIVE 2001 FIGURES

Certain of the 2001 figures have been reclassified to conform with the 2002 presentation.

Summary Of Quarterly Data (Unaudited)

(Thousands of dollars except per share amounts)

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	\$59,393	\$66,727	\$68,892	\$71,941	\$266,953
Income before interest and taxes	5,199	7,941	6,790	10,486	30,416
Net income	3,466	5,008	4,360	6,608	19,442
Earnings per share:					
Basic	\$0.38	\$0.55	\$0.47	\$0.71	\$2.11
Diluted	\$0.37	\$0.52	\$0.45	\$0.68	\$2.02
Common share trading range:					
High	\$18.00	\$27.50	\$25.80	\$23.99	\$27.50
Low	\$12.30	\$16.20	\$21.50	\$17.00	\$12.30

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	\$52,205	\$58,800	\$57,240	\$58,997	\$227,242
Income before interest and taxes	1,773	5,313	6,811	7,004	20,901
Net income	370	2,786	3,679	4,302	11,137
Earnings per share:					
Basic	\$0.04	\$0.28	\$0.38	\$0.45	\$1.15
Diluted	\$0.04	\$0.28	\$0.38	\$0.44	\$1.15
Common share trading range:					
High	\$10.00	\$10.78	\$13.00	\$14.25	\$14.25
Low	\$7.00	\$7.25	\$9.75	\$10.00	\$7.00

Ten Year Financial Summary

(Thousands of dollars except per share amounts)

Operations Data	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Sales	\$266,953	\$227,242	\$253,575	\$232,943	\$182,891	\$164,721	\$138,590	\$128,051	\$106,819	\$79,435
R&D, gross	8,303	7,560	9,026	8,224	7,432	6,743	5,237	4,939	4,400	4,041
Income before interest, taxes restructuring and other charges	30,416	20,901	23,255	11,567	9,082	16,440	14,274	14,013	10,232	9,069
Net income (loss)	19,442	11,137	14,452	(5,687)	3,528	8,766	7,502	8,003	6,101	5,689
Capital expenditures	19,899	16,516	13,801	34,670	39,670	38,050	22,466	30,350	23,458	16,316
Cash provided by operating activities	45,105	36,725	44,335	24,615	23,421	22,227	16,436	12,736	11,747	10,218

Financial Position

Working Capital	\$ 25,843	\$ 17,770	\$ 23,031	\$ 18,011	\$ 7,417	\$ 12,523	\$ 16,249	\$ 18,450	\$ 17,605	\$ 26,872
Property, plant and equipment, at cost	288,426	266,172	249,832	237,371	209,122	169,926	147,558	126,277	97,048	72,343
Total assets	208,469	191,927	204,526	223,864	210,530	178,877	160,912	139,823	112,876	96,904
Long-term debt	7,085	28,245	48,866	79,408	58,853	42,508	37,676	25,416	20,576	18,834
Shareholders' equity	144,811	122,150	115,159	101,040	108,774	102,784	92,934	82,489	65,249	57,596

Key Ratios

R&D % of sales	3.1%	3.3%	3.6%	3.5%	4.1%	4.1%	3.8%	3.9%	4.1%	5.1%
Margin before interest, taxes restructuring & other charges	11.4%	9.2%	9.2%	5.0%	5.0%	10.0%	10.3%	10.9%	9.6%	11.4%
Net income % of sales	7.3%	4.9%	5.7%	-2.4%	1.9%	5.3%	5.4%	6.2%	5.7%	7.2%
Return on equity	14.6%	9.4%	13.4%	-5.4%	3.3%	9.0%	8.6%	10.8%	9.9%	11.4%
Current ratio	1.69	1.65	1.80	1.42	1.18	1.44	1.59	1.77	1.90	2.90

Data per Share *

Net income	2.11	1.15	1.50	(0.59)	0.37	0.93	0.81	0.95	0.75	0.78
Cash provided by operations	4.90	3.80	4.62	2.57	2.47	2.36	1.77	1.51	1.43	1.40
Shareholders' equity	15.59	13.41	11.96	10.53	11.37	10.87	9.92	8.96	7.97	7.03

* Per share amounts are calculated as if the share subdivision which occurred in 1993 actually took place at January 1, 1993.

Board of Directors

John E. Beard
Corporate Director

Robert J. Lander
President and
Chief Executive Officer
Stackpole Ltd.

Darroch A. Robertson
Associate Professor,
Richard Ivey School
of Business

Larry J. Pearson
Corporate Director

J. Samuel Parkhill
Chairman of the Board,
Stackpole Ltd.

David G. Vice
Corporate Director

James W. Zug
Corporate Director

Senior Management Team

CORPORATE

Ronald J. Duke
Vice President
of New Business
Development

Robert J. Lander
President and Chief
Executive Officer

James M. Stewart
Vice President,
Administration

Patrick Kinsie
Vice President of Sales

Gary S. Love
Vice President, Finance,
Chief Financial Officer,
Secretary and Treasurer

Peter K. Jones
Vice President, Technology

OPERATIONS

L. Douglas Asbridge
General Manager,
Carrier Systems Division

David C. Elliott
General Manager,
Automotive Gear Division

Matthew Trobe
President and Managing
DirectorFormFlo Limited

Eric R. Cozens
General Manager,
Engineered Products
Division

Ian McLeod
General Manager
Pump Components Division

STACKPOLE LIMITED

Stackpole Limited was incorporated under the laws of the province of Ontario on November 10, 1952. Upon the completion of an initial public offering in May 1993, Stackpole Limited became a publicly traded Company.

LISTING OF CAPITAL STOCK

The common shares of the Company are listed on The Toronto Stock Exchange under the stock symbol "SKD".

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common shares of the Company is Computershare Investor Services Inc.

AUDITORS

The shareholders' auditors are Deloitte & Touche LLP, Toronto, Canada.

FINANCIAL CALENDAR 2003

Fiscal year end: December 31

Interim Reports mailed: Q1 – May
Q2 - August
Q3 - November

SHAREHOLDER ACCOUNT INFORMATION

Shareholders seeking assistance or information concerning their accounts may contact Computershare as follows:
Telephone: 1-800-663-9097
Website: www.computershare.com
E-mail: caregistryinfo@computershare.com

ANNUAL INFORMATION FORM

A copy of the Stackpole Limited Annual Information Form is available from the Secretary of the Company upon request at:
2381 Bristol Circle
Suite B-203
Oakville, Ontario
L6H 5S9

INVESTOR INFORMATION

Shareholders seeking assistance or information about the Company are invited to contact:
Gary S. Love,
Vice President, Finance,
Chief Financial Officer,
Secretary and Treasurer, at:
2381 Bristol Circle
Suite B-203
Oakville, Ontario L6H 5S9

Telephone: (905) 829-2050
Facsimile: (905) 829-0438

Web site: www.stackpole.ca

E-MAIL

Secretary: glove@stackpole.ca

**Stackpole Product Innovation
as judged by the annual
MPIF International P/M Design Competition**

MPIF GRAND PRIZE 2002

Complex multi-level drive sprocket for high performance four wheel drive system. Utilizes Stackpole patented powder metal alloys and processes, capable of distributing 1,100 foot pounds of torque.



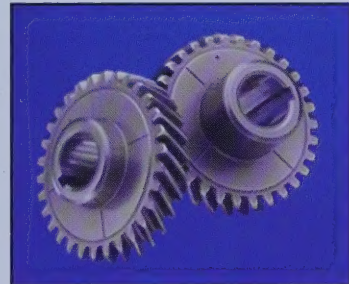
MPIF GRAND PRIZE 2001

Innovative planetary gear reaction carrier for premium high torque automatic transmission application. Utilizes Stackpole sinter-braze technology to provide low cost, high tolerance powder metal assembly in place of conventional cast iron.



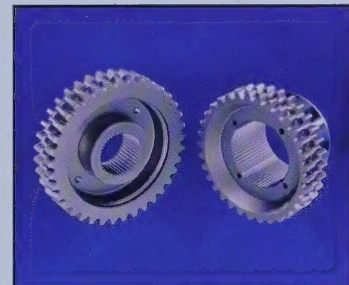
MPIF GRAND PRIZE 1999

High strength helical engine balancer gears. Utilizes Stackpole patented powder metal alloys and processes and provides superior dynamic balance, durability and noise reduction performance.



MPIF GRAND PRIZE 1998

High strength phased tooth transmission sprocket. Ground-breaking application of Stackpole patented powder metal technology providing cost effective solution for a highly loaded chain sprocket with offset gear teeth.



MPIF AWARD OF DISTINCTION 1996

Transmission drive and driven sprockets for the GM 4T40E transmission. Stackpole's first high volume, high strength powder metal gear application incorporating patented selectively densified gear teeth and integrated bearing journal.



